

Climate-related Disclosures

Final Consultation

Draft NZ CS 1, NZ CS 2 and NZ
CS 3

EY Submission

September 2022



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Climate-related Disclosures Final Consultation

Tēnā koe e te rangatira,

EY welcomes the opportunity to submit to the External Reporting Board (XRB) on the proposed Climate-related Disclosure Framework Consultation Document (draft NZ CS 1, draft NZ CS 2 and draft NZ CS 3).

At EY, we are committed to building a better working world – building trust and confidence in the capital markets and in economies the world over. Our multidisciplinary Climate Change and Sustainability Services team helps clients understand the risks and opportunities arising from climate change and sustainability issues. In January 2021, we announced our ambition to be carbon negative in 2021 by setting targets to significantly reduce our absolute emissions and removing and offsetting more carbon than we emit. We plan to not only become carbon negative but to also reduce our total emissions by 40% – consistent with a science-based target – and achieve net zero in 2025.

The EY commitment to sustainability is an integral part of our NextWave strategy and ambition to create long-term value for all stakeholders. We believe climate-related financial disclosures can contribute to a better working world. Our submission contains our views on all three climate-related disclosure documents (NZ CS 1, NZ CS 2 and NZ CS 3). We believe these changes could further improve transparency and decision-making to stimulate and steer investment towards long-term sustainable options and support the allocation of capital to adaptable, efficient and climate-resilient entities.

We hope that our submission will provide a valuable point of view. Thank you for the opportunity to make this submission, and we look forward to continued engagement.

Ngā mihi nui,

Pip Best
New Zealand Climate Change
and Sustainability Services Partner
Ernst & Young Limited

SUBMISSION

1. Background

Our working world is undergoing significant shifts. Investors, regulators and – more broadly – society are increasingly demanding greater transparency around both the financial and nonfinancial performance of organisations to assess their true long-term value.

EY's Climate Change and Sustainability Services (**CCaSS**) practice helps clients strategise for long-term value by understanding and evaluating nonfinancial outcomes and impacts (including climate change), identifying risks and opportunities, and supporting the reporting of nonfinancial performance disclosures to their stakeholders. EY is a member of the Task Force on Climate-related Financial Disclosures (**TCFD**) and issues regular Climate Risk Barometer publications which monitor the progress of reporting against the TCFD recommendations at a global and regional level. These publications have highlighted small incremental improvements in climate risk disclosures since the launch of the TCFD but also show a significant gap between the full set of recommended disclosures and current practice. In addition, our CCaSS practice in Aotearoa New Zealand has served as the Secretariat of The Aotearoa Circle's Sustainable Finance Forum (**SFF**) to develop the SFF Interim Report and 2030 Roadmap for Action, recognising the critical role of finance to scale up and re-direct capital to enable the transition to a sustainable economy. EY continues to support the work of Toitū Tahua – the Centre for Sustainable Finance, and the implementation of the 2030 Roadmap for Action.

Given our role in helping clients respond to climate change risks and the development of reporting frameworks such as the TCFD recommendations, we welcome the opportunity to make this submission on the Aotearoa New Zealand Climate Standards (draft **NZ CS 1**, draft **NZ CS 2** and draft **NZ CS 3**).

2. Executive Summary

As stated in our previous submissions, EY strongly supports the draft sections on Strategy, and Metrics and Targets and Governance and Risk Management as part of NZ CS 1. In particular, EY supports XRB's decision to base NZ CS 1 on the TCFD recommendations, as the leading framework for climate-related disclosures internationally, and to provide additional disclosure requirements, where necessary, to ensure that NZ CS 1 is ambitious and forward-looking.

Our submission makes specific recommendations that we believe could further improve transparency and decision-making to stimulate and steer investment towards long-term sustainable options and support the allocation of capital to well-prepared and climate-resilient entities.

On the basis that all sectors will face disruption from the physical and transition impacts of climate change, and that the climate-related disclosures regime should serve the needs of a broad range of stakeholders, and be linked to New Zealand's targets under the Climate Change Response Act 2002, we submit that the XRB should:

- ▶ To mitigate the current lack of specificity, greater clarity should be provided to climate reporting entities (CREs) regarding the Scope 3 requirements, scenario analysis and appropriate disclosure information.
- ▶ Commit to revisiting the level of engagement required with external stakeholders to lessen the undue burden that they will potentially face.

3. Lack of Specificity

Investors, regulators and – more broadly – society are increasingly demanding greater transparency from organisations to assess their true long-term value and potential impacts of climate-related risks and opportunities. Assured disclosures serve the public interest by promoting trust and confidence in business and the capital markets. General requirements for climate-related disclosures are presented in draft NZ CS 3. Additionally, we note that the XRB are currently developing assurance standards that will be released in late 2022.

To lessen undue burdens on CREs, greater clarity is required regarding the standard's disclosure requirements. A vague disclosure standard will increase the financial and personnel burden on CREs. Currently, the standard lacks specificity across a number of disclosures, including the Scope 3 requirements for entities, the level of detail of scenario analysis and clarity on what an appropriate disclosure includes. To ensure disclosures are aligned with the framework, CREs will need to be provided with more information.

Our recommendation: The XRB should commit to providing CREs with clear and specific guidance about their disclosure requirements.

4. External stakeholder engagement

All sectors will face disruption from the physical and transition impacts of climate change. Engaging with stakeholders from a variety of sectors forms a critical aspect of the climate-related risks and opportunities development process. Stakeholder engagement is a part of the scenario analysis process. Guidelines are required to limit the burden on the small number of stakeholders that are experts in the field. If all CREs are expected to consult, those experts will be continuously responding to the same questions and situations.

We note that XRB has changed the scenario analysis scope to requiring a minimum of three scenarios. EY recommended this change in our previous submission. We commend XRB for revisiting the number of scenarios required to be used in scenario analysis.

Our recommendation: With this in mind, and building on our prior submission, EY recommends that the XRB commit to revisiting the proposed stakeholder engagement requirements, to limit the burden that will potentially be placed on a small field of experts.



5. Conclusion

Climate-related risks can have a detrimental impact on investors and other stakeholders, and managing these risks is critical for an entity to achieve long-term value creation. EY is committed to ensuring that the assurance and advisory professions are able to continue serving the evolving needs of investors, businesses, and the public interest.

We commend the XRB for utilising this opportunity to create a robust, fair and effective climate-related risks disclosure regime that supports Aotearoa New Zealand's pathway towards a more sustainable, low-emissions, climate-resilient economy. We wish to again express strong support for the draft disclosure framework, that has been outlined in the Consultation Document. The recommendations we have outlined within our submission are intended to highlight areas where NZ CS 1, NZ CS 2 and NZ CS 3 can be further strengthened to achieve a world leading climate-related disclosure framework for Aotearoa New Zealand to allow for better decision making on capital allocation and help smooth our transition.

We are happy to meet with the Climate-related Disclosures Project Steering Group to discuss any aspect of our submission. To discuss this further, please contact Pip Best at pip.best@nz.ey.com.



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